

SKAGIT COUNTY, WASHINGTON
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. The County Should Comply With Their Administrative Services Procedures Manual When Disposing Of Surplus Property And Should Avoid Lending Its Credit and Making Gifts Of Public Funds

The county purchased the Atkins Tire building with the Land Acquisitions/Facilities Fund on August 23, 1993, for \$235,011. At the time of purchase, the building was appraised in excess of \$270,000. On this same date, the board received a proposal for the lease/purchase of the property by Skagit Search and Rescue, a private, nonprofit organization. On November 22, 1993, the building was declared surplus and sold to Skagit Search and Rescue. The sale was arranged as a ten-year lease/purchase consisting of a \$40,000 down payment and \$9,300 per year for ten years. Payments would total \$133,000 with no stated interest rate. In addition, the county agreed to pay for all utilities during the ten-year period.

By selling the building at less than half the appraised value and by paying all utilities for a ten-year period, the county is making a gift of public funds. The lease/purchase arrangement is a lending of credit and as such, is a direct violation of the constitution.

The *Constitution of the State of Washington*, Article VIII, Section 7, states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

In addition, the county did not comply with their own policy regarding the sale of property.

The Skagit County Commissioners' Office *Administrative Services Procedures Manual* is paraphrased as follows:

Upon receipt of a request to purchase surplus Skagit County property, the Administrative Coordinator shall make a complete copy of the petition, and distribute it to other departments to determine if there is any need for the property. Upon receipt of comments from the departments, the matter is brought before the Board of County Commissioners. The Board shall call a hearing to determine whether or not it is in the best interest of the public to declare said property surplus and auction off the property.

The manual further states:

Following the completion of the public hearing, the Board of County Commissioners shall decide to either:

- (1) maintain ownership of said property for public use, or

(2) declare the property surplus and direct the Skagit County Treasurer to conduct a public auction for the sale of said property. (Emphasis added.)

The minutes of the November 22, 1993, public hearing indicate the decision was made to declare the property surplus and to effectively sell it, through the use of a lease/purchase agreement, to Skagit Search and Rescue. This was done without the benefit of the required public auction.

By choosing not to comply with the *Administrative Services Procedures Manual* for disposition of county property, Skagit County officials are unable to assure the public that the best price was received for the property. The timing of events and the specifics of the sales arrangement make it appear that the building was purchased with the intent to sell it to Skagit Search and Rescue.

We recommend the county work with their attorney and Skagit Search and Rescue to resolve the violation of the state constitution. We also recommend the county refrain from disposing of property without due process in all future transactions.

2. The County Should Improve Controls Over Cash Receipting

During our audit of the Skagit County Public Works Department, the following cash receipting weaknesses were noted:

- a. Accounts receivable payments received at the public works department are forwarded to the accounting department without being immediately recorded on receipts and appropriately deposited.
- b. Although both receptionists who take in cash at the front counter have separate cash drawers, the drawers are readily accessible to both receptionists. As a result, individual accountability is lost.
- c. Checks which are inadvertently received for other departments are transferred to the correct department without being receipted in and deposited.
- d. Each day's receipts are not deposited intact. As a result of this weakness, when combined with the other lack of controls, no assurance can be given that all revenues have been accounted for.

The Washington State Constitution, Article XI, Section 15, states in part:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town or other municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer or other legal depository.

In addition, the county's own cash collection Policy No. 2, Part 3 states:

Checks or currency should not be handled by the accounting departments. Postings to accounts receivable ledger cards should be made from remittance advices or from cash receipts or listings of cash receipts prepared for this purpose, rather than from the actual cash item.

Public works management failed to implement the county's own cash collection policies.

The lack of controls over cash receipts and the lack of accountability greatly increases the risk of undetected errors and irregularities.

We recommend the public works department implement cash handling procedures in accordance with the county's cash collection policy manual.

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Schedule Of Federal Findings

1. The County Should Prepare And Submit An Accurate Schedule Of Federal Financial Assistance

The county's 1993 Schedule of Federal Financial Assistance was not accurately reported when first submitted for auditing. Extensive time and effort by the State Auditor's Office was expended to correct the schedule.

RCW 43.09.200 states in part:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

The Schedule of Federal Financial Assistance was inaccurate due to the lack of a cohesive system of accounting for grant awards, revenues, and expenditures.

When the county does not prepare accurate financial reports the tax payers bear the burden of the additional expenses incurred to correct the reports and a significant increase in audit costs. Loss of revenues may be incurred due to untimely reimbursement requests. Inaccurate reporting and accounting can potentially result in the loss of future federal and state funding. This lack of a cohesive system to account for federal grants is considered a material internal control weakness.

We recommend the county officials devise a system which can provide accurate accounting and reporting for grant awards, revenues and expenditures.